

# Idaho Economic Forecast

C.L. "Butch" Otter, Governor

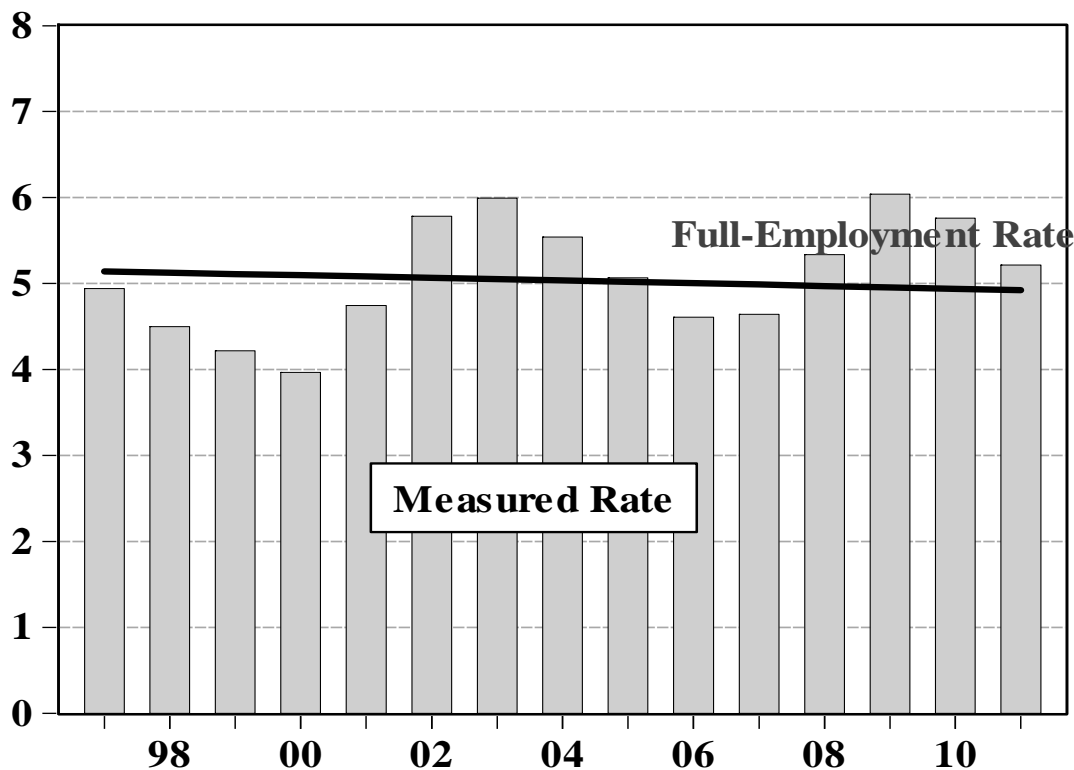
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- Forecast 2008-2011
- Consumer Sentiment and Consumer Spending
- Alternative Forecasts

## U.S. Civilian Unemployment Rate



Source: Global Insight

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**IDAHO  
ECONOMIC  
FORECAST  
2008 - 2011**

State of Idaho  
C.L. “BUTCH” OTTER  
Governor

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## PREFACE

Idaho's economy continues to grow and evolve as it enters the 21<sup>st</sup> Century. The 1980s was a decade of stop-and-start economic performance. However, it also ushered in one of the longest expansions in the state's history. Since 1987, nonfarm employment has expanded every year and has consistently placed Idaho among the top ten fastest growing states in the nation. The 1990s saw a flood of new residents move into the state, causing the population to expand by an astounding 29% from 1990 to 2000. Over this period Idaho personal income nearly doubled. Much of the current expansion results from ongoing structural changes in Idaho's economy.

One of the biggest changes is the rise of the state's high-technology sector. Virtually nonexistent in the 1970s, this sector achieved critical mass in the 1990s to become the state's largest manufacturing employer. The growth of industry giants, such as Micron Technology and Hewlett-Packard, as well as the emergence and expansion of smaller companies, pushed payrolls above even the most optimistic forecasts made in the 1980s. The state's trade sector has also been going through a transformation. The last decade witnessed an influx of national "big box" merchandisers. During this same time, Idaho merchants successfully reached beyond the state's borders. Several regional shopping centers were established that serve locals, as well as attract shoppers from other states and Canada. Visitors fueled the surge in tourism that also benefited trade. Like its national counterpart, the service sector accounts for most of the nonfarm jobs in Idaho. Tourism has also been a boon to the service industry. While traditional factors, such as increasing discretionary income, continue to fuel the demand for services, other influences have emerged. For example, the use of temporary employees in manufacturing has bolstered business services employment. Idaho's outstanding work force has been a major factor in attracting call centers, back office operations, and credit card companies.

While many changes are taking place today, traditional resource industries still play a major role in Idaho's economy. Indeed, the state's mining, agriculture, and timber sectors all experienced lulls in the late 1990s. While displaying more resilience to downturns than in the past, these industries are not totally immune from business-cycle effects. The continuing dependence on natural resources will bring a host of challenges to Idaho.

Other factors that are external to the state's economy will also present challenges to decision makers. Public policy decisions made in Washington, D.C. affect resource industry and federal installations such as the Idaho National Laboratory and the Mountain Home Air Force Base. Finding balanced and acceptable solutions to endangered and threatened species issues and timber supply issues are of major economic significance.

In order to deal effectively with these challenges, public and private decisions need to be made with a thorough understanding of the structure of the state's economy. It is to this end that the *Idaho Economic Forecast* is directed.

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## INTRODUCTION

The national forecast presented in this publication is the July 2008 Global Insight baseline forecast of the U.S. economy. The previous *Idaho Economic Forecast* is based on the April 2008 Global Insight baseline national forecast.

The cover graph shows the U.S. civilian unemployment rate will creep up through next year to a level that is above what is considered a normal level of unemployment. The unemployment rate is expected to decline in the last two years of the forecast, but not enough to drop it below this threshold. The reason for the high unemployment is due partly to the forecast of slow job gains over the forecast period, especially in 2008 and 2009. During these two years, U.S. nonfarm employment growth virtually stalls, gaining less than 50,000 jobs. The pace of hiring does pick up beginning in 2010, but the average annual pace for that year and 2011 is just 1.6%.

## FEATURE

The feature article, “Consumer Sentiment and Consumer Spending,” was written by Dr. James A. Wilcox. It describes how the University of Michigan's Index of Consumer Sentiment (ICS) is constructed and reviews some past research on whether measures of consumer attitudes improve forecasts of consumer spending. He also reports on some new research, which found that using the answers to the individual component questions of the ICS, rather than the ICS itself, further improved forecasts of personal consumption expenditures and its components. Finally, it shows how much and when measures of consumer attitudes might have helped forecasts in recent years. Dr. Wilcox's report is particularly timely given the recent slide in consumer confidence. Dr. Wilcox is a Visiting Scholar at the Federal Reserve Bank of San Francisco and Professor at UC Berkeley's Haas School of Business.

## THE FORECAST

Alternative assumptions concerning future movements of key economic variables can lead to major variations in national and/or regional outlooks. Global Insight examines the effects of different economic scenarios, including the potential impacts of recessions, higher inflation, and future Federal Reserve Board decisions. Alternative Idaho economic forecasts were developed under different policy and growth scenarios at the national level. These forecasts are included in this report.

Historical and forecast data for Idaho and the U.S. are presented in the tables in the middle section of this report. Detail is provided for every year from 1994 to 2011 and for every quarter from 2005 through 2010. The solution of the Idaho Economic Model (IEM) for this forecast begins with the second quarter of 2008.

Descriptions of the Global Insight U.S. Macroeconomic Model and the IEM are provided in the Appendix. Equations of the IEM and variable definitions are listed in the last pages of this publication.

## CHANGES

The Idaho Department of Labor provides monthly historical employment data that are seasonally adjusted and converted to quarterly frequencies by the Idaho Division of Financial Management (DFM). These adjusted data include final employment numbers through the first quarter of 2008 and estimates for the second quarter of this year. These data show Idaho total nonfarm employment was 89 jobs lower in the fourth quarter of 2007 than had been reported in the April 2008 *Idaho Economic Forecast* and there were 3,161 fewer jobs in this year's first quarter than had been earlier forecast.



The tables in this forecast include the U.S. Bureau of Economic Analysis' (BEA) June 19, 2008 estimates of Idaho quarterly personal income through the first quarter of 2008. The next round of Idaho quarterly personal income estimates is scheduled to be published on September 18, 2008 and will run through the second quarter of 2008. These estimates will be incorporated into the October 2008 *Idaho Economic Forecast*.

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